



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ESTILL COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ESTILL COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Estill County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$460,504 from the prior fiscal year, resulting in a cash surplus of \$235,711 as of June 30, 2001. Revenues decreased by \$1,134,912 from the prior year and disbursements decreased by \$231,151.

Debt Obligations:

Long-term debt totaled \$618,034 as of June 30, 2001. Future principal and interest payments of \$796,428 are needed to meet these obligations.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

Findings and Questioned Costs:

- The Fiscal Court Should Require Improved Accounting Procedures for Jail Canteen
- The Fiscal Court Should Require the Jailer to Properly Collect and Account for Home Incarceration Fees

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwight Arvin, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Estill County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Estill County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Estill County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Estill County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwight Arvin, Estill County Judge/Executive
Members of the Estill County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2002, on our consideration of Estill County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Estill County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following reportable conditions:

- The Fiscal Court Should Require Improved Accounting Procedures for Jail Canteen
- The Fiscal Court Should Require the Jailer to Properly Collect and Account for Home Incarceration Fees

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 27, 2002

ESTILL COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Dwight E. Arvin	County Judge/Executive
Kevin Williams	Magistrate
Samuel Tipton	Magistrate
Robert Burns	Magistrate

Other Elected Officials:

Heather Combs	County Attorney
Wayne Abney	Jailer
Sherry Fox	County Clerk
Charlene Baker	Circuit Court Clerk
Gary L. Freeman	Sheriff
Tamara Dunaway	Property Valuation Administrator
John Toler	Coroner

Appointed Personnel:

Laura Ann Rogers	County Treasurer
Laura Ann Rogers	Occupational Tax Collector

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

ESTILL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:			
Cash	\$	20,238	
Road and Bridge Fund:			
Cash		30,427	
Jail Fund:			
Cash		5,292	
Local Government Economic Assistance Fund:			
Cash		6,427	
Payroll Revolving Account			
Cash		<u>16,048</u>	\$ 78,432

Special Revenue Fund Type

CSEPP Fund:			
Cash	\$	64,677	
State Grant Fund			
Cash		<u>48,516</u>	113,193

Debt Service Fund Type

Public Properties Corporation Fund:			
Cash			60,144

Other Resources

General Fund Type

General Fund:			
Amounts to be Provided in Future Years for			
Capital Lease Principal Payments - Enrichment Center			195,000
Road and Bridge Fund:			
Amounts to be Provided in Future Years for			
Capital Lease Principal Payments - Equipment			23,000

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Other Resources (Continued)

General Fund Type (Continued)

Jail Fund:

Amounts to be Provided in Future Years for Jail	
Lease Participation Agreement - Principal	\$ 145,034

Debt Service Fund Type

Public Properties Corporation Fund:

Amounts to be Provided in Future Years for	
Bond Principal Payments	194,856

Total Assets and Other Resources	<u>\$ 809,659</u>
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Liabilities and Fund Balances

Liabilities

General Fund Types

General Fund:

Capital Lease Agreement Principal	
Enrichment Center (Note 4A)	\$ 195,000

Road and Bridge Fund:

Capital Lease Agreement Principal	
Equipment (Note 4B)	23,000

Jail Fund:

Lease Participation Agreement - Principal (Note 5B)	145,034
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Payroll Revolving Account-

Payroll Taxes Payable	16,048
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Debt Service Fund Types

Public Properties Corporation Fund:

Bond Principal Payable (Note 5A)	255,000
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The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Fund Balances

Reserved:

Special Revenue Fund Type

CSEPP Fund	\$ 64,677	
State Grant Fund	<u>48,516</u>	\$ 113,193

Unreserved:

General Fund Type

General Fund	\$ 20,238	
Road and Bridge Fund	30,427	
Jail Fund	5,292	
Local Government Economic Assistance Fund	<u>6,427</u>	<u>62,384</u>

Total Liabilities and Fund Balances		<u>\$ 809,659</u>
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The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ESTILL COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,115,965	\$ 1,468,414	\$ 981,474	\$ 119,922
Transfers In	461,975	120,000	45,000	229,000
Total Cash Receipts	<u>\$ 3,577,940</u>	<u>\$ 1,588,414</u>	<u>\$ 1,026,474</u>	<u>\$ 348,922</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,437,561	\$ 1,296,931	\$ 991,466	\$ 338,657
Transfers Out	461,975	274,000	187,975	
Bonds:				
Principal Paid	55,000			
Interest Paid	16,425			
Jail Capital Lease Obligation Principal	6,334			6,334
Lease Principal Paid	61,149	40,149	21,000	
Total Cash Disbursements	<u>\$ 4,038,444</u>	<u>\$ 1,611,080</u>	<u>\$ 1,200,441</u>	<u>\$ 344,991</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (460,504)	\$ (22,666)	\$ (173,967)	\$ 3,931
Cash Balance - July 1, 2000	<u>696,225</u>	<u>42,904</u>	<u>204,394</u>	<u>1,361</u>
Cash Balance - June 30, 2001	<u>\$ 235,721</u>	<u>\$ 20,238</u>	<u>\$ 30,427</u>	<u>\$ 5,292</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Types	Special Revenue Fund Types			Debt Service Fund Type
Local Government Economic Assistance Fund	CSEPP Fund	Community Development Block Grant Fund	State Grant Fund	Public Properties Corporation Fund
\$ 48,484	\$ 379,395	\$ 89,422	\$ 25,500	\$ 3,354
				67,975
\$ 48,484	\$ 379,395	\$ 89,422	\$ 25,500	\$ 71,329
\$ 43,282	\$ 404,209	\$ 89,422	\$ 273,594	\$
				55,000
				16,425
\$ 43,282	\$ 404,209	\$ 89,422	\$ 273,594	\$ 71,425
\$ 5,202	\$ (24,814)	\$	\$ (248,094)	\$ (96)
1,225	89,491		296,610	60,240
\$ 6,427	\$ 64,677	\$ 0	\$ 48,516	\$ 60,144

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Estill County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation as a component unit of Estill County. The Public Properties Corporation's information is blended with that of the primary government.

Additional - Estill County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Estill County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Estill County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund (LGEA).

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The CSEPP Fund, Community Development Block Grant Fund and State Grant Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Estill County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance Budget (Continued)

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Estill County Fiscal Court: Estill County Industrial Development Authority, Estill County Water District, and the Estill County Library.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Kentucky Association of Counties Leasing Trust Agreement

A. Enrichment Center

Estill County Fiscal Court entered into a leasing agreement with the Kentucky Association of Counties Leasing Trust for the purpose of construction of a county Enrichment Center. The amount of the lease principal was \$285,000 plus interest at 5.43 percent, plus administrative fees, credit fees, and fiduciary fees. The principal is paid annually and the interest is paid monthly over a 10-year period. The balance of the lease trust as of June 30, 2001, was \$195,000 as shown below:

Year Ended June 30,	Scheduled Interest	Scheduled Principal
2002	\$ 11,760	\$ 14,000
2003	10,890	14,000
2004	9,994	15,000
2005	9,035	16,000
2006	8,015	17,000
2007-2012	23,899	119,000
Totals	\$ 73,593	\$ 195,000

B. Equipment

Estill County entered into a leasing trust agreement with the Kentucky Association of Counties Leasing Trust for the purpose of purchasing equipment. The amount of the lease principal was \$173,000 plus interest at 5.2 percent, plus administrative fees, credit fees, and fiduciary fees. The principal is paid annually and the interest is paid monthly over a 10-year period. The balance of the lease trust as of June 30, 2001, was \$23,000.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 5. Long-Term Debt

A. Bonds Outstanding of the Estill County Public Properties Corporation

The county is liable for the following bonds issued by the Estill County Public Properties Corporation dated August 5, 1996, in the amount of \$585,000. Principal is payable annually on August 1, and interest is payable semiannually on February 1 and August 1. Debt service requirements are as follows:

Year Ended June 30,	Scheduled Interest	Scheduled Principal
2002	\$ 13,260	\$ 60,000
2003	9,840	60,000
2004	6,150	65,000
2005	2,100	70,000
Totals	<u>\$ 31,350</u>	<u>\$ 255,000</u>

Note 6. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds in the amount of \$206,362 for the purpose of construction and reconstruction of the jail facility. The fiscal court subsequently entered into a lease and participation agreement with KLCFCA for \$206,362 principal plus interest on the issue. Debt service requirements are as follows:

Year Ended June 30,	Scheduled Interest	Scheduled Principal
2002	\$ 8,983	\$ 6,738
2003	8,542	7,165
2004	8,073	7,620
2005	7,832	8,103
2006	7,045	8,617
2007-2015	32,976	106,791
Totals	<u>\$ 73,451</u>	<u>\$ 145,034</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 7. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Description	Annual Payment	Term of Agreement	Ending Date	Balance 06/30/01
Dump Truck	\$ 21,813	4 Years	11/1/2003	\$ 43,626
Sheriff Cruiser	5,567	4 Years	11/1/2003	11,134
Voting Machines	21,149	3 Years	4/1/2003	54,298
Ford F-450 Truck	10,746	3 Years	8/1/2001	10,746

Note 8. Insurance

For the fiscal year ended June 30, 2001, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

During the Fiscal Year Ending June 30, 2001, the Estill Jail Canteen received \$0 and expended \$1,009. The Jail Canteen reported June 30 ending balances of \$1,034 and \$25 for 2000 and 2001 respectively.

The Estill Jail Canteen operations do not fully comply with KRS 441.135. Specific deficiencies of the Canteen operation are noted within the Findings and Questioned Costs section of this audit.

Note 10. Contingent Liability

Capstone Technologies, Inc. provides monitoring services to the Estill County Jailer for prisoners under court ordered house arrest. Not all money collected by the Jailer for home incarceration has been paid to Capstone Technologies, Inc. for services rendered or turned over to the County Treasurer for deposit into the county's Jail Fund. The unpaid home incarceration charges represent a contingent liability for the county of \$10,000 to \$11,000 as of February 28, 2002.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ESTILL COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,550,017	\$ 1,468,414	\$ (81,603)
Road and Bridge Fund	943,280	981,474	38,194
Jail Fund	319,029	119,922	(199,107)
Local Government Economic Assistance Fund	48,810	48,484	(326)
<u>Special Revenue Fund Type</u>			
State Grant Fund	430,000	25,500	(404,500)
Community Development Block Grant Fund	254,082	89,422	(164,660)
CSEPP Fund	371,182	379,395	8,213
Totals	<u>\$ 3,916,400</u>	<u>\$ 3,112,611</u>	<u>\$ (803,789)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,916,400
Add: Budgeted Prior Year Surplus			650,494
Less: Other Financing Uses			<u>(136,486)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 4,430,408</u>

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SCHEDULE OF OPERATING REVENUE

ESTILL COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 766,146	\$ 766,146	\$	\$
In Lieu Tax Payments	4,467	4,467		
Excess Fees	27,534	27,534		
Intergovernmental Revenues	2,015,655	1,529,641	486,014	
Charges for Services	226,459	226,459		
Miscellaneous Revenues	66,452	58,149	8,303	
Interest Earned	9,252	5,898		3,354
Total Operating Revenue	<u>\$ 3,115,965</u>	<u>\$ 2,618,294</u>	<u>\$ 494,317</u>	<u>\$ 3,354</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ESTILL COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 644,524	\$ 577,987	\$ 66,537
Protection to Persons and Property	562,561	548,396	14,165
General Health and Sanitation	58,465	56,020	2,445
Social Services	44,700	44,442	258
Roads	762,855	748,713	14,142
Debt Service	56,030	54,610	1,420
Capital Projects	357,900	233,903	123,997
Administration	487,499	406,265	81,234
Total Operating Budget - All General Fund Types	\$ 2,974,534	\$ 2,670,336	\$ 304,198
Other Financing Uses:			
Kentucky Association of Counties			
Leasing Trust Agreement			
Principal	40,149	40,149	
Principal	21,000	21,000	
Transfer to Public Properties			
Corporation Fund			
Principal	55,000	55,000	
Interest	14,000	12,975	1,025
Jail Capital Lease Obligation	6,337	6,334	3
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 3,111,020</u>	<u>\$ 2,805,794</u>	<u>\$ 305,226</u>

ESTILL COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2001
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 492,105	\$ 420,664	\$ 71,441
Debt Service	254,082		254,082
Capital Projects	696,610	337,516	359,094
Administration	13,077	9,045	4,032
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 1,455,874</u>	<u>\$ 767,225</u>	<u>\$ 688,649</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwight Arvin, Estill County Judge/Executive
Members of the Estill County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Estill County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Estill County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Estill County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Estill County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- The Fiscal Court Should Require Improved Accounting Procedures for Jail Canteen
- The Fiscal Court Should Require the Jailer to Properly Collect and Account for Home Incarceration Fees

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness:

- The Fiscal Court Should Require the Jailer to Properly Collect and Account for Home Incarceration Fees

This report is intended solely for the information and use of management, and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 27, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
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Members of the Estill County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Estill County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. Estill County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Estill County's management. Our responsibility is to express an opinion on Estill County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Estill County's compliance with those requirements.

In our opinion, Estill County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Estill County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Estill County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 27, 2002

FINDINGS AND QUESTIONED COSTS

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Estill County.
2. Two reportable conditions disclosed during the audit of the financial statements is reported in the Independent Auditor's Report. One of the conditions is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Estill County were disclosed during the audit.
4. No reportable condition disclosed during the audit of the major federal awards programs is reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Estill County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Estill County reported in Part C of this schedule.
7. The program tested as a major program was: Chemical Stockpile Emergency Preparedness Program - CFDA #83.549.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Estill County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

The Fiscal Court Should Require Improved Accounting Procedures for Jail Canteen

Our audit revealed that required financial reports and accounting records are not being maintained for the Jail Canteen. Specifically noted was the absence of receipt and disbursement journals, daily check-out sheets, timely bank deposits, bank reconciliations, financial statements, and adequate supporting documentation for expenditures. KRS 441.135 states, "The jailer may maintain a canteen fund for the benefit of prisoners lodged in the jail and may assign such jail employees and prisoners to operate a canteen as are necessary for efficient operation. All profits from the canteen shall be used for the benefit or recreation of the prisoners. The jailer shall keep books of accounts on the canteen account." KRS 67.080 gives the fiscal court the authority to "... cause correct accounts and records to be kept of all receipts and disbursements of the public funds of the county." We recommend the fiscal court require the jailer to maintain complete and accurate records of the financial activity of the Jail Canteen and prepare and submit the required financial reports. We also recommend that Jail Canteen expenditures be supported by adequate documentation and be exclusively for the benefit or recreation of the prisoners.

County Judge/Executive Dwight Arvin's Response:

Fiscal Court will abide by auditor comments and findings.

Jailer Wayne Abney's Response:

Will comply with proper accounting and reporting standards as appropriate for the Jail Commissary deemed appropriate by our jail inspector.

ESTILL COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Fiscal Year Ended June 30, 2001
 (Continued)

The Fiscal Court Should Require the Jailer to Properly Collect and Account for Home Incarceration Fees

During the audit period, it appears that the Jailer collected home incarceration fees; however, not all monies collected were turned over to the County Treasurer for deposit into the county's Jail Fund. The Jailer collects a one-time fifty-dollar hook-up fee along with a daily charge of ten dollars for each day the prisoner is on home incarceration. The outside monitoring service is to receive the fifty-dollar hook-up fee, along with a daily charge ranging from \$2.50 to \$5.00 based on the individual inmates' security level. The remainder of the daily charges should be used to offset the operating expenses of the jail. Due to inadequate record keeping, this results in an undetermined amount of home incarceration fees, which are unaccounted for and were not deposited into the county's Jail Fund. Home incarceration fees should be remitted to the County Treasurer for deposit into the county's Jail Fund, with a check subsequently written from the Jail Fund to pay the outside monitoring service. We recommend that all home incarceration fees collected by the Jailer be remitted daily as collected to the County Treasurer for deposit into the county's Jail Fund, and the outside monitoring service be paid from the county's Jail Fund. We further recommend the Jailer maintain proper documentation and records of each prisoner under the home incarceration program, the total amount collected, and the total amount due the outside monitoring service for services rendered.

County Judge/Executive Dwight Arvin's Response:

Fiscal Court will abide by auditor comments and findings.

Jailer Wayne Abney's Response:

All monies and bills will be submitted to the Estill County Treasurer/Fiscal Court for payment to Capstone Technologies. Copies of proper paperwork will also be submitted to the treasurer.

NONCOMPLIANCES

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

1. The Fiscal Court Should Require Improved Accounting Procedures for Jail Canteen. This finding has not been corrected and is repeated as a comment in the current year report.
2. Jailer Should Properly Collect and Account for Bail Bond Fees. This finding has been corrected.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants - Estill County Rural Water Expansion Project (CFDA #14.228)	B-97-DC-21- 0001(016)	\$ 89,422
HUD Disaster Recovery Initiative Program - March 1997 Flood (CFDA #18.XXXX)	Not Available	<u>248,094</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 337,516</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	\$ 17,387
Chemical Stockpile Emergency Preparedness Program (CFDA #83.549)	M-00228677	<u>404,209</u>
Total U.S. Federal Emergency Management Agency		<u>\$ 421,596</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 759,112</u></u>

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2001

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures include grants to subrecipients as follows:

<u>Subrecipient</u>	<u>Number</u>	<u>Pass-through Grant Amount</u>
Estill County Water District	14.228	\$ 89,422
Estill County Water District	18.XXXX	<u>248,094</u>
Total Provided to Subrecipients		<u>\$ 337,516</u>

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

ESTILL COUNTY FISCAL COURT

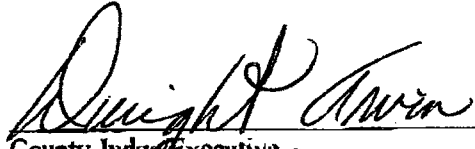
Fiscal Year Ended June 30, 2001

Appendix A

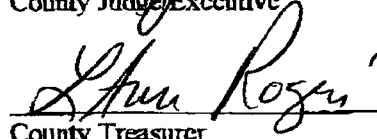
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ESTILL COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Estill County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer